

What is Keynesian Economics?

Keynesian economics is an economic theory of total spending in the economy and its effects on output and inflation.

Keynes' perspective and possible solution on Great Depression

In classical economic theory, it is said that output and prices will eventually return to a state of equilibrium, but the Great Depression cannot use in this theory because output was low and unemployment remained high. The Great Depression inspired Keynes to think differently about the nature of the economy. Keynes proposed that the government spend more money, which would increase consumer demand in the economy. This would, in turn, lead to an increase in overall economic activity, the natural result of which would be recovery and a reduction in unemployment. In the other words, Keynes advocated for increased government expenditures and lower taxes to stimulate demand and pull the global economy out of the depression.

Keynes' perspective on saving and economic growth

Keynes and his followers believed individuals should save less and spend more, raising their marginal propensity to consume to effect full employment and economic growth. In this way, one dollar spent in fiscal stimulus eventually creates more than one dollar in growth.

Alternative theory on saving and economic growth

Classical economists believed that saving is a necessary and sufficient condition for securing investment and that the interest rate is the price that equates them. They believed that if savings go up, investment increases, and then economic growth follows.

Meaning and Pros and cons of monetary policy

Monetary policy, the demand side of economic policy, refers to the actions undertaken by a nation's central bank to control money supply to achieve macroeconomic goals that promote sustainable economic growth. Pros of monetary policy can be implemented fairly easily and central banks are independent and politically neutral. On the other hand, Cons of monetary policy are effects have a time lag, technical limitations and monetary tools are general and affect an entire country.

Meaning and Pros and cons of Fiscal policy

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. Pros of fiscal policy can direct spending to specific purposes or can use taxation to discourage negative externalities. Cons of fiscal policy may be politically motivated and tax incentives may be spent on imports.

What is a Multiplier and Multiplier Effect?

A multiplier refers to an economic factor that, when applied, amplifies the effect of some other outcome. In economics, a multiplier broadly refers to an economic factor that, when increased or changed, causes increases or changes in many other related economic variables. In terms of gross domestic product, the multiplier effect refers to the proportional amount of increase in final income

that results from an injection of spending. Alternatively, a multiplier effect can also work in reverse, showing a proportional decrease in income when spending falls.

What is Deflation and Inflation?

Deflation is the general decline of the price level of goods and services. During deflation, the purchasing power of currency rises over time. Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.

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